

SAVOLA GROUP COMPANY
(Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**
For the Three-Month period ended March 31, 2010



KPMG Al Fozan & Al Sadhan

Al Dainy Plaza
Al Madinah Road
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

Telephone +966 2 658 1616
Fax +966 2 605 0597
Internet www.kpmg.com.sa

**LIMITED REVIEW REPORT ON THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

The Shareholders
Savola Group Company
Jeddah, Saudi Arabia

Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of Savola Group Company (the Company) and its subsidiaries (the Group) as at March 31, 2010, the related interim consolidated statements of income and cash flows for the three-month period then ended and the attached condensed notes 1 to 12 which form an integral part of these interim condensed consolidated financial statements. These interim condensed consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We conducted our limited review in accordance with the auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Al Sadhan:

Tareq Abdulrahman Al Sadhan
License No. 352



April 19, 2010G
Corresponding to Jumada Al Awwal 05, 1431H

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at March 31, 2010

	<u>Note</u>	<u>2010</u> (SR 000)	<u>2009</u> (SR 000)
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents		634,042	773,872
Trade receivables		1,534,361	1,014,887
Inventories		2,175,504	1,803,803
Prepayments and other current assets		937,381	1,315,198
Total current assets		5,281,288	4,907,760
Non-current assets:			
Investments	4	6,030,738	4,976,343
Intangible assets		1,103,824	814,002
Property, plant and equipment		5,068,937	4,242,723
Total non-current assets		12,203,499	10,033,068
Total assets		17,484,787	14,940,828
 <u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Short-term bank debts	5	1,790,693	1,830,434
Current portion of long-term debts	6	741,929	330,938
Trade payables		1,796,958	1,423,357
Accrued expenses and other current liabilities		1,052,149	1,104,501
Total current liabilities		5,381,729	4,689,230
Non-current liabilities:			
Deferred gain		91,569	33,140
Long-term payables		60,469	66,289
Long-term debts	6	2,754,667	2,688,434
Employees' termination benefits		250,423	213,631
Total non-current liabilities		3,157,128	3,001,494
Total liabilities		8,538,857	7,690,724
 <u>EQUITY</u>			
Equity attributable to the Company's shareholders:			
Share capital	7	5,000,000	5,000,000
Statutory reserve		868,102	772,946
General reserve		4,000	4,000
Unrealized (loss) on investments		(12,054)	(131,718)
Foreign currency translation account		(189,588)	(186,677)
Retained earnings		1,697,470	1,016,906
Total shareholders' equity		7,367,930	6,475,457
Minority interests		1,578,000	774,647
Total equity		8,945,930	7,250,104
Total liabilities and equity		17,484,787	14,940,828

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
For the three-month period ended March 31, 2010

	<u>Note</u>	<u>2010</u> (SR 000)	<u>2009</u> (SR 000)
Revenues - net		4,764,446	3,635,043
Cost of revenues		<u>(3,974,249)</u>	<u>(3,018,721)</u>
Gross profit		790,197	616,322
Share of profits of associates and jointly controlled entity and dividend income - net	4	93,841	106,875
Other income - net		<u>74,320</u>	<u>21,940</u>
Total income		958,358	745,137
EXPENSES:			
Selling and marketing		(455,100)	(342,491)
General and administrative		<u>(172,132)</u>	<u>(124,058)</u>
Total expenses		(627,232)	(466,549)
Income from operations		331,126	278,588
Gain on disposals of investments		196,266	15,487
Financial charges - net		<u>(47,829)</u>	<u>(51,895)</u>
Income before Zakat and income tax and minority interests		479,563	242,180
Zakat and income tax		<u>(28,560)</u>	<u>(14,104)</u>
Net income before minority interests		451,003	228,076
Share of minority interests in the net income of consolidated subsidiaries		<u>(56,961)</u>	<u>(35,524)</u>
Net income		394,042	192,552
Earnings per share – Income from operations	8	<u>0.66</u>	<u>0.56</u>
– Net income		<u>0.79</u>	<u>0.39</u>

The accompanying notes 1 to 12 form an integral part
of these interim condensed consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
For the three-month period ended March 31, 2010

	<u>2010</u> (SR 000)	<u>2009</u> (SR 000)
Cash flows from operating activities:		
Net income	394,042	192,552
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortisation	132,395	107,002
(Gain) on sale of property, plant and equipment	(1,795)	(1,826)
(Gain) on disposal of investments	(196,266)	(15,487)
Financial charges	47,829	51,895
Share of minority interests in net income of consolidated subsidiaries	56,961	35,524
Changes in operating assets and liabilities:		
Trade receivables	(134,439)	(95,096)
Inventories	78,120	235,555
Prepayments and other current assets	(37,161)	(181,136)
Trade payables	(11,895)	207,111
Accrued expenses and other current liabilities	(317,566)	(228,398)
Employees' termination benefits	8,135	2,935
Total adjustments	<u>(375,682)</u>	<u>118,079</u>
Net cash provided by operating activities	<u>18,360</u>	<u>310,631</u>
Cash flows from investing activities:		
Effect of deconsolidation of Herfy	(20,062)	--
Net change in investments	(618,255)	(238,341)
Net change in intangible assets	6,826	(31,841)
Net addition to property, plant and equipment	(131,207)	(110,482)
Net cash used in investing activities	<u>(762,698)</u>	<u>(380,664)</u>
Cash flows from financing activities:		
Net change in short-term debts	(436,488)	(1,463,131)
Net change in long-term debts	723,444	1,762,595
Net change in minority interests	48,771	(8,392)
Financial charges	(47,829)	(51,895)
Changes in restricted deposits	44,696	--
Dividend paid	(562)	(156)
Net cash provided by financing activities	<u>332,032</u>	<u>239,021</u>
Net change in cash and cash equivalents	<u>(412,306)</u>	<u>168,988</u>
Cash and cash equivalents at beginning of the period	<u>1,001,185</u>	<u>604,884</u>
Cash and cash equivalents at end of the period	<u>588,879</u>	<u>773,872</u>
Non cash items:		
Foreign currency translation adjustments	4,262	(25,750)
Unrealized gains/ (loss) on available-for-sale investments	9,547	(4,465)
Directors' remunerations	550	600
Dividend income	--	116,800

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**
For the three-month period ended March 31, 2010

1. THE COMPANY, ITS SUBSIDIARIES AND NATURE OF BUSINESS

Savola Group Company (the "Company"), a Saudi joint stock company, was formed under the Regulations for Companies in the Kingdom of Saudi Arabia per Royal Decree number M/21 dated Rabi-ul-Awal 29, 1398H (March 9, 1978). The Company's commercial registration number 4030019708 was issued in Jeddah on Rajab 21, 1399H (June 16, 1979). The purpose of the Company includes the manufacturing and marketing of vegetable oils and to set up related industries, retail outlets, dairy products, fast foods, packing materials, exports and imports, commercial contracting, trade agencies and development of agricultural products.

At March 31, the Company has investments in the following subsidiaries (collectively described as "the Group"), which are principally engaged in the manufacturing and marketing of vegetable oils, food products, retailing, packaging materials and fast food operations. In addition, the Group is also involved in real estate related investment activities.

<u>Directly and indirect subsidiaries</u>	<u>Country of incorporation</u>	Ownership interest (%) <u>at March 31</u>	
		<u>2010</u>	<u>2009</u>
Savola Packaging Systems Limited ("SPS")	Saudi Arabia	100	100
Utur Packaging Materials Company Limited	Saudi Arabia	100	100
Savola Trading International Limited	British Virgin Islands	100	100
Tayseer FZCO	UAE	100	100
Batool International Trading Company Limited	Saudi Arabia	100	100
Al-Azizia Panda United Company	Saudi Arabia	74.4	80
Savola Foods Company ("SFC")	Saudi Arabia	90	85
Herfy Food Services Company Ltd. ("Herfy")	Saudi Arabia	--	70
Savola Industrial Investments Co. ("SIIC")	Saudi Arabia	4.5	4
United Properties Development Company ("UPDC")	Saudi Arabia	100	100
Adeem Arabia Company Ltd. ("AAC")	Saudi Arabia	80	100
Kamin Al Sharq for Industrial Investments ("Kamin")	Saudi Arabia	100	100
Arabian Sadouk for Telecommunications Co. ("Sadouk")	Saudi Arabia	100	100
Al Maoun International Holding Company	Saudi Arabia	100	100
Al Matoun International for Real Estate Investment Holding Company	Saudi Arabia	80	100
AFIA Foods Arabia	Saudi Arabia	100	100
United Sugar Company, Egypt	Egypt	18.9	18.8
Giant Stores Trading Company	Saudi Arabia	8	8
United Company for Central Markets ("UCCM")	Lebanon	8	--

1. THE COMPANY, ITS SUBSIDIARIES AND NATURE OF BUSINESS (continued)

Entities controlled through subsidiaries

	Country of <u>incorporation</u>	Subsidiary ownership interest (%)	
		<u>2010</u>	<u>2009</u>
<u>SFC</u>			
Afia International Company ("AIC")	Saudi Arabia	95.19	95.19
Savola Industrial Investment Company ("SIIC")	Saudi Arabia	95	95
Savola Foods Emerging Markets Company Limited ("SFEM")	British Virgin Islands	95.4	95
<u>AIC</u>			
Savola Behshahr Company (SBeC)	Iran	80	80
Malintra Holdings	Luxembourg	100	100
Savola Foods Limited ("SFL")	British Virgin Islands	100	100
Afia International Company – Jordan	Jordan	97.4	75
Inveskz Inc.	British Virgin Islands	90	90
Afia Trading International	British Virgin Islands	100	100
Savola Food International	British Virgin Islands	100	100
KUGU Gida Yatum Ve Ticaret A.S (KUGU)	Turkey	100	100
<u>SFL</u>			
Afia International Company, Egypt	Egypt	99.8	94.5
<u>Inveskz Inc.</u>			
Turkuaz Edible Oils	Kazakhstan	100	100
<u>KUGU</u>			
Yudum Gida Sanayi ve Ticaret A.S ("Yudum")	Turkey	100	100
<u>SIIC</u>			
United Sugar Company ("USC")	Saudi Arabia	64.8	64.8
<u>USC</u>			
United Sugar Company Egypt ("USCE")	Egypt	53.45	53.2
<u>SFEM</u>			
Savola Morocco Company	Morocco	100	100
Savola Edible Oils (Sudan) Ltd.	Sudan	100	100
AFIA International Company – Algeria	Algeria	100	100
<u>SPS</u>			
New Marina for Plastic Industries	Egypt	100	95
Al Sharq Company for Plastic Industries. Ltd.	Saudi Arabia	93	99
<u>APU</u>			
Giant Stores Trading Company	Saudi Arabia	90	90
United Company for Central Markets ("UCCM")	Lebanon	14	--
<u>Giant</u>			
Lebanese Sweets and Bakeries ("LSB")	Saudi Arabia	95	95
United Company for Central Markets ("UCCM")	Lebanon	76	76

1. THE COMPANY, ITS SUBSIDIARIES AND NATURE OF BUSINESS (continued)

The Group subsidiary, Afia International Company acquired additional 31% stake in SBeC, an existing jointly-controlled entity, from BIDC through a Share Purchase Agreement (the “SPA”) after which its ownership interest in SBeC has increased from 49% to 80%. Effective April 1, 2009 the group started to consolidate SBeC in its consolidated financial statements.

During the second quarter of 2009, the group formed Akwan, (a 62% effectively owned Special Purpose Vehicle) and Diyar Al Mashreq (previously named Bawareq), (a 37.7% effectively owned jointly controlled entity) with other partners for the purpose of carrying out a real estate project (See also Note 4.1.2).

On June 03, 2009, the Group entered into an agreement with A. K. Al Muhadib & Sons Company (“Al Muhadib”), to acquire certain real estate properties through its wholly owned subsidiary, Al Matoun International for Real Estate Investment Holding Company for the agreed value of SR 336 million and in exchange paid SR 97 million in cash and issued 20% stake in the Al Matoun to Al Muhadib. The transaction was closed during the third quarter of 2009.

Effective September 16, 2009, the Group acquired through APU, the operations of Saudi Géant Company Limited (“Géant”), a limited liability company registered in Saudi Arabia. The consideration comprised of cash of SR 232 million and a deferred equity consideration of SR 237.3 million. APU paid the cash consideration on October 12, 2009 and the deferred equity component will be paid in the form of issue of 45,699 new shares (approximately) of APU with a par value of SR 1,000 per share. APU has recorded this amount in its balance sheet under shareholders’ equity as 'Proposed increase in share capital; hence the group’s shareholding is diluted by 5.6%. The proposed new shares will be issued at a premium and APU’s shareholders have also agreed to convert APU into a closed joint stock company at the time of issuance of the aforementioned equity shares. The legal formalities for such process have been initiated as on December 31, 2009.

Effective October 24, 2009, APU acquired direct ownership interest of 14% in United Company for Central Markets (UCCM), Lebanon (an existing subsidiary of Gaint). The net assets of such operations having a fair value of SR 1.27 million were acquired at a total consideration of SR 2.49 million. Accordingly, the acquisition resulted in recognition of goodwill in the Company’s books of SR 1.22 million.

In connection with Group’s acquisition of Al-Sharq (through SPS) in 2005 and subsequent legal proceedings of a minority shareholder owning 1% in Al-Sharq, against SPS and existing shareholders; in view of the court’s decision in favour of the minority shareholder, the Group in 2009 sold 6% shareholding of SPS in Al- Sharq to the minority shareholder for SR 10.5 million at a loss of SR 344 thousands.

During this quarter, the Group’s subsidiary, Herfy foods Services Company was offered to public subscription through Initial Public offering (IPO) of 30% of its existing shares. This resulted in dilution of Group’s interest in Herfy from 70% to 49% and loss of control. The Group received SR 289 million in consideration of its 5.67 million shares at a price of SR 51 per share and realised a net gain on disposal of SR 196 million. Herfy was deconsolidated from the date of its listing and has recognised as an associate in these interim condensed consolidated financial statements.

2. **BASIS OF PREPARATION**

(a) **Statement of compliance**

The accompanying interim condensed consolidated financial statements have been prepared in accordance with the Standard for Interim Financial Information issued by the Saudi Organization for Certified Public Accountants (SOCPA).

These interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Group for the year ended December 31, 2009.

(b) **Basis of measurement**

The interim condensed consolidated financial statements are prepared under the historical cost basis (except for available-for-sale investments which are stated at their fair values), using the accrual basis of accounting and the going concern concept.

(c) **Functional and presentation currency**

The accompanying interim condensed consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency. All financial information presented in SR has been rounded to the nearest thousand.

(d) **Critical accounting judgements and estimates**

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted by the Group for the preparation of these interim condensed consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements. Significant accounting policies adopted by the Company for the preparation of these interim condensed financials statements are as follows:

(a) **Basis of consolidation**

These interim condensed consolidated financial statements include the interim consolidated financial statements of the Company and its subsidiaries set forth in Note 1 above. Associates and jointly-controlled entities are accounted for using the equity method.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the interim condensed consolidated financial statements from the date that control commences until the date control ceases.

All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries and those arising between the subsidiaries are eliminated in preparing these interim condensed consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

(b) **Foreign currency translation**

The interim condensed consolidated financial statements are reported into Saudi Riyals, which is the Group's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions denominated in foreign currencies are translated to the functional currencies of the Group at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currencies of the Group at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the consolidated statement of income currently.

Assets and liabilities of foreign consolidated subsidiaries are translated in Saudi Arabian Riyals at the exchange rates in effect at the balance sheet date. The components of foreign subsidiaries with the exception of retained earnings of subsidiaries are translated at the exchange rates in effect at the dates of the related items originated. The elements of foreign subsidiaries' income statement are translated using the weighted-average exchange rate for the period. Adjustments resulting from the translation of foreign subsidiaries' financial statements into Saudi Arabian Riyals are reported as a separate component of equity (foreign currency translation account) attributable to shareholders of the Company in the interim condensed consolidated financial statements.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Any goodwill arising on the acquisition of foreign subsidiaries and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are translated at the closing rate at the balance sheet date.

(c) **Trade receivables**

Trade receivables are carried at original invoice amounts less provision made for doubtful accounts. A provision for doubtful accounts is established when there is a significant doubt that the Group will be able to collect all amounts due according to the original terms of agreement.

(d) **Inventories**

Inventories are valued at the lower of cost (determined principally by using the weighted average method) and net realizable value. Cost of finished goods and work-in-process includes the cost of raw materials, direct labour and appropriate production overheads. Inventories in transit are valued at cost.

(e) **Investments**

(i) *Investments in associates and jointly-controlled companies*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Jointly controlled companies are those where the Group shares effective control with other shareholders of the investee company.

The Group's investments in its associate and jointly controlled companies are accounted for using the equity method of accounting from the date that significant influence or joint-control commence until the date that such influence or joint-control cease. Under the equity method, the investment in the associate and jointly controlled entity are carried in the balance sheet at cost (including goodwill paid on acquisition, net of any impairment losses), plus post-acquisition changes in the Group's share of net assets of the investee company. Where there has been a change recognised directly in the equity of the associate or jointly controlled company, the Group recognises its share of such changes in its consolidated statement of changes in shareholders' equity.

When the Group's share of losses exceeds its interest in an associate or jointly-controlled company, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(ii) *Available-for-sale investments*

Investments which are not held for trading purposes and where the Group does not have significant influence or control, are classified as investments available for sale. These primarily include Group's investment of less than 20% in certain locally listed and unlisted companies.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

These investments are initially recorded at cost and then re-measured and stated in the consolidated balance sheet at their fair values. Fair value is determined by reference to the market value in the open market if an open market exists. In the absence of an open market and reliable estimate of the fair value cannot be established by other means the cost is considered to be the fair value for those investments. Any gain or loss arising from a change in their fair value is reported as a separate item under shareholders' equity until the investments are derecognized or impaired. On de-recognition, cumulative gains or losses previously recognized in shareholders' equity are included in the consolidated statement of income. On impairment, the difference between cost and fair value is included in the consolidated statement of income as Impairment of assets. Reversals of impairment loss in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Dividend income from such investments is recorded when declared.

Investments which management intend to dispose off within a period of one year are classified as current assets.

(iii) Other investments

These include the Group's investment in real estate projects which are under development. These are carried at cost net of any impairment loss.

(f) **Business combinations**

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instrument issued and liabilities incurred or assumed at the date of exchange, and includes costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition.

The excess of the cost of the business combination over the Group's share in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities is classified as Goodwill.

(g) **Intangible assets**

i) Goodwill

Goodwill represents the excess cost of investments over the fair value of the net assets acquired in a business combination. Goodwill is tested annually for impairment and is carried at cost net of accumulated impairment losses. Gains or losses on the disposal of an entity are determined taking into account the carrying value of goodwill relating to the entity sold.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to these units.

If the cost of the acquired investment is less than its fair value as of the acquisition date, such difference is adjusted by reducing the fair values of the non-current assets of the acquired investee in proportion to their book values.

ii) Deferred costs

Deferred costs mainly consist of expenses incurred by the Group on setting up new retail outlets and other projects. Such expenses are amortized using the straight-line method over the related estimated economic lives not exceeding five years.

Deferred charges also include Saudi Industrial Development Fund (SIDF) loan approval fees and related costs, which are deferred and are being amortized using the straight-line method over the period of the respective loans.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses (if any). Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follow:

	<u>Years</u>
Buildings	12.5 – 33
Leasehold improvements	3 – 25
Plant and equipment	3 – 30
Furniture and office equipment	4 – 11
Motor vehicles	4 – 10

Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Expenditures for maintenance and repairs that do not materially extend the asset's life are included in expenses.

(i) Provisions

Provisions are recognized when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(j) **Employees' termination benefits**

Employees' termination benefits, calculated in accordance with labour regulations of the countries of incorporation of the Group member companies, are accrued and charged to interim consolidated statements of income.

(k) **Revenue recognition**

Revenues are recognized upon delivery or shipment of products or providing services to the customers, and are recorded net of trade discounts. Revenues also include: (a) rental income which is recognized over the lease terms, and (b) promotional and display income which is recognized as earned.

Revenues are principally derived from manufacturing, wholesale and retail businesses in food and related products.

(l) **Expenses**

Selling, marketing, general and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under generally accepted accounting principles. Selling and marketing expenses are those arising from the Group's efforts underlying the marketing, selling and distribution functions. All other expenses are classified as general and administrative expenses. Allocations of common expenses between cost of revenues and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

(m) **Operating leases**

Payments under operating leases are recognized in the interim consolidated statements of income on a straight-line basis over the lease terms.

(n) **Zakat and income tax**

The Company and its Saudi Arabian subsidiaries are subject to zakat and income tax in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). The foreign subsidiaries are subject to tax regulations in their countries of incorporation. Zakat & income taxes are charged to the interim consolidated statements of income currently.

(o) **Dividends**

Interim dividends are recorded as a liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the period in which they are approved by the shareholders.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less, which are available to the Group without any restrictions.

(q) Offsetting

Financial assets and liabilities are offset and reported net in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segmental reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

4. INVESTMENTS

Investments at March 31 comprise the following:

	<u>2010</u> (SR 000) (Unaudited)	<u>2009</u> (SR 000) (Unaudited)
Investments in associates and jointly controlled companies - net (4.1)	4,326,320	3,196,476
Available for sale (AFS) investments (4.2)	857,391	828,961
Investment in unconsolidated subsidiary	8,804	8,804
Other investments - at cost (4.3)	<u>838,223</u>	<u>942,102</u>
Total	<u>6,030,738</u>	<u>4,976,343</u>

4.1 Investment in Associates and Jointly-controlled companies

	Effective Ownership interest (%)		2010	2009
	2010	2009	SR (000) (Unaudited)	SR (000) (Unaudited)
Al Marai Company Ltd. – Saudi Arabia	29.9	28	2,578,068	1,381,762
Kinan International for Real Estate Development Company	30	30	563,905	534,185
Intaj Capital Limited – British Virgin Islands	49	49	381,349	420,449
Savola Behshahr Company Iran (“SBeC”) (4.1.1)	80	80	--	653,890
Diyar Al Mashreq (4.1.2)	--	--	234,684	161
Herfy foods services Company	49	--	193,058	--
Alexandria Sugar Company	45.5	45.5	193,465	30,976
Emerge Investment Ltd	20	20	23,233	18,755
Al-Seara City Company For Real Estate Development	40	40	134,800	134,800
Knowledge Economic City Development Company	40	40	13,200	13,200
Kinan Arabia for Real Estate	20	20	400	10,000
Others	Various	Various	10,158	7,393
Total			4,326,320	3,205,571
Provision for permanent diminution in value of investments			--	(9,095)
			<u>4,326,320</u>	<u>3,196,476</u>

4.1.1 As explained in Note 1, AIC acquired an additional 31% stake in SBeC and its results and balances are consolidated in these interim condensed consolidated financial statements effectively from April 1, 2009.

4.1.2 During second quarter of 2009, the Parent Company transferred its investments in a plot of land carried at cost (included as other investments in the comparative period) to a 62% owned SPV (Akwan). Akwan subsequently disposed this land to a 37.7% jointly controlled entity (Diyar Al Mashreq) at fair value. This has resulted in the Group realising a net capital gain of SR 85.8 million from disposal of land to the partners in the jointly controlled entity.

The Group expects to receive shares in Diyar Al Mashreq through Akwan as consideration for disposal of this property (to Diyar Al Mashreq) with a face value equivalent to the fair value of the land transferred amounting to SR 231.5 million. Therefore, this amount is reflected as part of investment in jointly controlled entity in these consolidated financial statements.

4.2 Available for sale (AFS) investments

AFS investments at March 31, 2010 principally comprise of the Company’s 2.4% ownership interest amounting to SR 246 million (2009: SR 165 million 2.4%) in Emaar the Economic City (a joint stock company) formed for the development of King Abdullah Economic City. It also includes the ownership interest of 14% in Swicorp Jousour Company amounting to SR 209 million (2009: SR 209 million), 15% in Swicorp, Saudi Arabia amounting to SR 116 million (2009: SR 116 million), 6.4% in Knowledge Economic City amounting to SR 217 million (2009: SR 217 million) and 5% in Taameer Jordanian Holding Company (Tameer) amounting to SR 42 million (2009: SR 51 million).

4. INVESTMENTS (continued)

4.3 Other investments

Other investments at March 31, 2010 mainly represent investments in certain real estate projects in Saudi Arabia.

5. SHORT-TERM BANK DEBTS

Short-term bank debts consist of bank overdrafts, short-term loans and Murabaha financing arrangements from various commercial banks and financial institutions. Such debts bear financing charges at the prevailing market rates. Some of the short-term debts are secured by corporate guarantees of the Group.

6. LONG-TERM DEBTS

Long-term debts represent financing from Saudi Industrial Development Fund (SIDF), commercial banks and other financial institutions for Savola Group Company and its consolidated subsidiaries. Some of these loans are secured by a charge on the property, plant and equipment of certain subsidiaries. The loan agreements include covenants which, among other things, require certain financial ratios to be maintained.

7. SHARE CAPITAL AND DIVIDENDS DECLARATION

At March 31, 2010, the Company's share capital of SR 5 billion consists of 500 million fully paid shares of SR 10 each (March 31, 2009: SR 5 billion consisting of 500 million fully paid shares of SR 10 each).

The Board of Directors in its meeting held on April 18, 2010, approved interim dividends of SR 125 million (representing SR 0.25 per share).

8. EARNINGS PER SHARE

Earnings per share for the three-month period ended March 31, 2010 have been computed separately by dividing the income from operations (including minority's share) and net income for such period by the weighted-average number of ordinary shares outstanding during the three-month period ended March 31, 2009 of 500 million shares.

9. SEASONAL CHANGES

Some of the Group's activities are affected by seasonal movements related to the Holy months of Ramadan, Shawwal and Hajj season, which cause revenue to increase significantly during those periods. The effect of such period for 2009 and 2008 principally fall in third and fourth quarters of the financial year. Accordingly, the results of operations presented in the interim condensed consolidated financial statements for the quarter may not be a fair indicator of the results of operations for the full year.

10. SEGMENTAL INFORMATION

During the three-month period ended March 31, 2010 and 2009, the principal activities of the Group related to the manufacturing, wholesale and retail trading in various types of food and related products. Selected financial information as of March 31, 2010 and 2009, and for the period ended on those dates, summarized by segment, is as follows:

<u>2010 (Unaudited)</u>	<u>Manufacturing/ wholesale</u> (SR 000)	<u>Retail</u> (SR 000)	<u>Investments and other activities</u> (SR 000)	<u>Total</u> (SR 000)
Property, plant and equipment – net	2,758,224	2,304,013	6,700	5,068,937
Other non-current assets - net	971,000	373,560	5,790,002	7,134,562
Revenues – net	2,907,644	1,856,802	--	4,764,446
Net income	129,905	40,695	223,442	394,042

<u>2009 (Unaudited)</u>	<u>Manufacturing/ wholesale</u> (SR 000)	<u>Retail</u> (SR 000)	<u>Investments and other activities</u> (SR 000)	<u>Total</u> (SR 000)
Property, plant and equipment – net	2,187,708	2,049,350	5,665	4,242,723
Other non-current assets - net	1,267,015	196,736	4,326,594	5,790,345
Revenues – net	1,799,461	1,835,582	--	3,635,043
Net income	99,599	51,668	41,285	192,552

10. SEGMENTAL INFORMATION (continued)

The Group's operations are conducted in Saudi Arabia, Egypt, Iran and certain other geographical areas. Selected financial information as of March 31, 2010 and 2009, and for the period ended on those dates, summarized by geographic area, is as follows:

<u>2010 (unaudited)</u>	<u>Saudi Arabia</u> (SR 000)	<u>Egypt</u> (SR 000)	<u>Iran</u> (SR 000)	<u>Other</u> <u>countries</u> (SR 000)	<u>Total</u> (SR 000)
Property, plant and equipment – net	3,336,941	790,751	560,372	380,873	5,068,937
Other non-current assets-net	6,008,760	315,422	165,441	644,939	7,134,562
Revenue – net	3,103,149	537,324	581,482	542,491	4,764,446
Net income	376,484	7,872	30,551	(20,865)	394,042
				<u>Other</u>	
<u>2009 (Unaudited)</u>	<u>Saudi Arabia</u> (SR 000)	<u>Egypt</u> (SR 000)	<u>Iran</u> (SR 000)	<u>countries</u> (SR 000)	<u>Total</u> (SR 000)
Property, plant and equipment – net	3,117,090	774,148	--	351,485	4,242,723
Other non-current assets-net	4,851,335	91,487	653,890	193,633	5,790,345
Revenue – net	2,832,117	480,682	--	322,244	3,635,043
Net income	152,697	(12,484)	59,420	(7,081)	192,552

11. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At March 31, 2010, the Group had outstanding commitments of SR 186 million (2009: SR 201.8 million) for investments.

Contingent liabilities

At March 31, 2010, the Department of Zakat and Income Tax (DZIT) has assessed additional Zakat liability of SR 45.1 million (2009: SR 45.1 million) concerning prior periods against the Company and certain of its consolidated subsidiaries. Management has appealed such assessments and believes that the DZIT will eventually reverse the assessments. Accordingly, no provision for such amount has been made in the accompanying interim condensed consolidated financial statements.

12. BOARD OF DIRECTORS' APPROVAL

These interim condensed consolidated financial statements have been approved by the Company's Board of Directors on April 18, 2010.